

THE POLITICAL ECONOMY OF CAPITAL FLOWS:

THE CASE OF JAMAICA

by

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ABSTRACT

This paper is exploring the relationship between capital flows, specifically foreign capital inflows on the one hand, and domestic and foreign policy on the other. It is argued that the role of foreign capital in the underdeveloped economy is a function of public policy which, to a large extent, is determined by the class character and ideological orientation of the state. The methodology is based on a historical examination of the domestic and foreign policies of various Jamaican governments from 1962. These policies are then related to the role of foreign capital in the economy. During the 1972-1976 period, domestic policy objectively set the terms for the function of capital inflows in the Jamaican economy. However, that function was constrained by a combination of internal and external factors which emerged after 1974.

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I. INTRODUCTION

As quite a few political scientists have argued,¹ there is need for greater integration of the political and economic aspects of international relations. Capital flows have hitherto been analysed within the realm of international economics; whereas government policy, and especially foreign policy, has been confined to the area of (international) politics. To understand some of the complexities that have developed in the international system, it is necessary to adopt a political approach to the study of international economic relations. Even at the domestic level, it is meaningless to divorce economic analysis from political analysis.

In this paper we are concerned mainly with the political effects of certain international economic relationships such as, how have Jamaican domestic and foreign policies been influenced by the country's dependence on external financing. Alternatively, in what way has the pattern of foreign capital inflows been affected by the pursuit of certain domestic and foreign policies.

To examine meaningfully the interaction between these two sets of variables what is needed is a 'political economy' framework. While this can be interpreted essentially as 'the interaction of politics and economics'² we need to go further and identify a mechanism through which we can synthesise the political and economic approaches to the study of capital flows. We consider the most appropriate mechanism to be the state whose role at the domestic level and whose relations at the international level provide the point of departure for the study of the political economy of capital flows.³

In our 'role of the state' approach we conceive of the state as a mechanism comprising several arms - such as government, bureaucracy and judiciary. Its role is a function of both conflict and consensus between various classes and groups within the national system. State policies, then, reflect not only the interests of dominant classes but also the struggle between classes and interest groups. These policies are also affected by external factors such as foreign capital, trade and so on. For a Third World country such as Jamaica, the role of the state, as reflected in government policy, can be most meaningfully analysed in relation to the pursuit of economic development. What we are therefore doing in this study is to examine the interrelationship between capital flows and official policy and their effects on the role of the Jamaican state within the context of economic development.

Role of Foreign Capital in the Process of Economic Development

The process of capital accumulation has been (and still is) considered to be the central factor in economic growth and development. Capital has however been conceived essentially as a factor of production and a scarce one at that in underdeveloped economies. The main task for developing countries was therefore to mobilise both domestic and foreign capital for the purpose of generating levels of investment which would allow these countries to 'take off into self-sustaining growth'. This is a very mechanistic way of viewing growth and development; a question of manipulating the variables, savings and investment, in an equation which links the rate of growth to the rate of national savings. What has been overlooked, or assumed to be infinitely elastic, are the other factors in the production process as well as non-economic and especially political factors.

The neo-classical view of economic growth and development has significantly influenced development policies in the Third World and has provided the rationale for the transfer of resources from the developed to the developing countries. Foreign resource inflows are seen as one way of filling a 'savings-investment' gap or the gap between the amount of investment needed for some targeted output and the amount of domestic resources available for such investment. These inflows can also theoretically fill a 'foreign-exchange' gap where growth is hindered by the inability to finance import requirements from export earnings. But sole emphasis on increasing savings and investment and hence output through foreign capital inflows is inadequate for understanding the actual process in underdeveloped economies. We need to pay attention to the structure of the economy, the nature of foreign capital inflows themselves and the policies of government before we can meaningfully assess the role of foreign capital in the process of economic development.

The Rostovian thesis posits a causal relationship between growth of capital and growth of output. But historical experience has shown that, with the exception of specific instances of high growth rates, developing countries on the whole have not been able to industrialise and/or to maintain significant levels of growth. We consider public policy to be crucial in determining the direction that development will take given a certain level of investment.

We are therefore arguing that structural economic change in the underdeveloped economy is a function of state policy - both domestic and foreign policy - which is primarily determined by the class configuration in the society and secondarily by the international political and economic environments. Economic growth and development are also a function of

capital inflows. The resultant interrelationship between these variables should provide insights into an important aspect of the development process in underdeveloped economies.

We will set the context for examining the relationship between capital flows and public policy during the 70's by looking at the nature of the Jamaican economy and the type of policies pursued prior to the change of government in 1972.

II. NATURE OF THE JAMAICAN ECONOMY

The Jamaican economy can best be described as a peripheral capitalist economy whose structure was determined firstly by colonial capitalism and secondly by neo-colonial economic policies during the fifties and early sixties. Production of a few primary commodities - mainly sugar and bauxite/alumina - was geared for the external market while domestic demand was satisfied mainly through the importation of goods and services. The economy's dependence on external trade can be seen from the magnitude of the latter's contribution to the GDP. This averaged between 70 and 80 per cent from the sixties to the mid-seventies.

While we do not have the kind of data that would permit a class analysis of Jamaican society, we can roughly gauge the socio-economic situation from a cursory glance at the ownership structure of the Jamaican economy over time.

Prior to the Second World War, Jamaica was dependent mainly on agricultural production or sugar to be more specific, and this activity was mainly in the hands of non-Jamaican owners. Agriculture's contribution to the GDP was over 40 percent while the sector accounted for the employment of 45 percent of the Jamaican labour force.

With the development of bauxite/alumina, tourism and manufacturing in the post-war period the production structure became somewhat diversified although ownership was still concentrated in foreign hands - North American in contrast to the monopoly by British sugar concerns in the colonial period.

The Manufacturing Sector's contribution to the GDP increased from J\$2.4 million in 1938 to J\$15.8 million in 1950. The mining sector, dominated by bauxite/alumina operations, contributed as much as J\$5.2 m. in 1953⁵ or 7.8% of GDP (at constant prices) in 1959. Tourism expanded significantly in the post-war period, to a large extent as an outgrowth of the banana trade. The sector is subsumed under services which has been the largest contributor to the GDP. In 1959, Services, excluding Public Administration, contributed 18% of the GDP at constant prices.

The salient feature of the fifties is the emergence and growth of mining (bauxite/alumina) tourism, and to a lesser extent, manufacturing as significant foreign exchange earners. Although most of the economy was controlled by foreign interests especially in mining and tourism - the mining sector was dominated by foreign MNC's and most of the hotels were foreign owned - a significant local capitalist class emerged in manufacturing and distribution due in part to incentives offered under the industrialisation programme of the 50's and 60's.

This class, made up of the ethnic groups Jews, Syrians, Chinese and local white had originally been engaged in sugar planting and the distributive trade but came into prominence in the industrial sector with the establishment of incentive legislation during the 50's. Most of the corporate economy was owned and controlled by this group, in some cases in partnership with foreign enterprises.⁶ What we have then was an economy with limited diversification, owned and controlled by a small group consisting

mainly of foreign bourgeoisie supported by local capitalists. At the same time most of the population was employed in agriculture and the services or filled the ranks of the unemployed.

The economy was dependent for its foreign exchange on export earnings and capital inflows. At the beginning of the 1950's, agricultural products accounted for about 90% of the value of all visible exports and about (67%) of the value of total exports.⁷ With the growth of mining, manufacturing and service industries, agriculture's contribution to output declined considerably up to the early 1970's. Bauxite and alumina became significant foreign exchange earners being responsible for 49.5% of the total value of exports by 1968. Exports of manufactures also rose considerably. These goods represented 9.1% of total exports in 1968 as against 4.4% in 1950.⁸ The main trading partners were the UK, USA and Canada.

Despite economic diversification, unemployment has remained a major problem in the society. Between 1953 and 1960 real output grew at 8.1 percent per annum while employment increased by only 1.1 percent per annum.⁹ Unemployment decreased from 25.1% of the labour force in 1943 to 13.5% of the labour force in 1960. Although the growth of manufacturing and services led to an increase in employment this was not the real cause of the rate's decline in 1960 as the labour force had been expanding due to population growth. Rather, heavy emigration during the period 'depressed the growth of the labour force'.¹⁰

The Jamaican economy has been developing along capitalist lines but because of the nature of that development - slow and uneven - and the ties that existed with external capitalism, pre-capitalist relations not only persisted but expanded over the years. This was due mainly to the inability

of the new 'industrial' sector to absorb the growing labour force. Thus petty trading and domestic services have increased considerably.

State intervention in the economy has been minimal and confined essentially to a regulatory function. This was in keeping with colonial policies which favoured regulatory agencies to guarantee internal capitalism and marketing boards to guarantee the relationship and satisfy the needs of external capitalism.

III. POLICIES OF THE POST-INDEPENDENCE PERIOD, 1962-1972

Domestic Policies

Governments have always been concerned with the problem of promoting simultaneously economic growth and development. The government of the post-independence period felt it could achieve this by undertaking the following tasks:

1. increasing the productivity in existing industries
2. diversifying the economy by promoting industrialisation
3. increasing employment
4. increasing the foreign exchange earnings of the country.

These would however be carried out within the framework of the private enterprise system.

The government's view of economic development was basically in the neo-classical economic tradition and in line with the outlook of international agencies such as the International Monetary Fund (IMF) and the World Bank (IBRD). The growth and development of traditional industries and manufactures were to be carried out by private initiative and, in the case of Third World countries such as Jamaica, by foreign capital which supplements scarce domestic capital.

Government's role in the development process was to provide basic infrastructure and incentives to foreign capitalists, and to undertake projects in the public sector to relieve the problem of unemployment as a short-term measure. And the mechanisms to be used for influencing the economy would be 'fiscal, monetary and other devices'. Government, therefore, would be performing a purely regulatory function, similar to that in advanced capitalist countries. It was not that socialist economic organisation was completely overlooked or rejected, but the government pointed to the 'physical bottlenecks and administrative inefficiency' which constrain the achievement of central planning.¹¹

The previous government (1957-1961) had recognised the limitation of planning given a small public sector, but made no effort to increase the role of the state mainly on account of its desire to attract foreign capital.¹² Thus, even infrastructural activity was undertaken by private enterprise; all of the utilities, excepting the Jamaica Railway and the Water Commission were owned and operated by foreign investors.

These policies all resulted from government's perception that domestic capital was inadequate; and capital being considered the most important factor of production, it was necessary to create the climate that would encourage industrial development by foreign private investors. Emphasis was placed on manufacturing because foreign investment tended to concentrate on primary producing activities that were geared toward export - sugar, bauxite/alumina. Thus, in the 1950's, incentive legislation was passed to promote an industrialisation programme, namely the Pioneer Industries Law etc.

The main effect of the policy was a significant increase in output over the decade of the 50's. The GDP increased from J\$140.2 m. in 1950

to J\$505.0 m. in 1962 or at constant prices from J\$234.4 m. in 1953 to J\$424.6 m. in 1961. However, most of the new industries which were largely responsible for this growth - textiles, clothing, footwear, cement, paint and containers - were based on imported raw materials.¹³ The growth of manufacturing contributed to the growth of construction, distribution, transport and communications but the agricultural sector actually experienced a decline despite the strong emphasis placed on that sector in the 1957-1967 D/Plan. Agriculture's contribution to the GDP fell from 31.5% in 1950 to 13.4% in 1963.¹⁴

To assess government policies during the sixties we can focus on three major features of economic development. Firstly, sustaining the growth in national income; secondly maintaining economic growth through increased domestic savings; and thirdly, effecting structural economic transformation¹⁵ i.e., economic diversification with intersectoral linkages, and a reduction of structural dependence especially in the area of aid and trade relationships.

The Government of the 60's was able to sustain the growth of national income through continuing the promotion of the industrialisation programme. Yet while the national income increased by over a hundred percent between 1953 and 1961 (J\$192.0 to J\$408.2) it increased by about 50 percent between 1961 and 1968 (J\$408.2 to J\$665.4). At the same time net domestic saving increased by over 700% between 1953 and 1961 (J\$7.4 m. to J\$60.4m.) but by only 50% between 1961 and 1968 (J\$60.4 m. to J\$92.1 m.) which seems to suggest that the marginal propensity to save had levelled off and would have to be raised either voluntarily or otherwise.¹⁶ Moreover, corporate sector contribution to domestic savings was limited by the sector's repatriation of profits.

Despite the growth of domestic savings foreign capital continued to contribute a substantial part to net investment during most of the 1960's (from 10% of net investment in 1961 to 46% in 1968).¹⁷ Thus the economy was unable to sustain growth through increased domestic savings because of the increased outflow of investment income accruing to non-residents.

While the government managed to diversify production it was unable to effect structural transformation as most of the new industries set up (as well as the traditional export industries) relied mainly on foreign inputs. Moreover, mainly on account of the open nature of the economy and the inequality in income distribution the new manufacturing enterprises catered to the external capitalist market while domestic demand was satisfied mainly by imports of consumer goods.

What we now need is a closer look at the role of the state in the development process of the 1960's. This we will examine under the heading of foreign policy during the period.

Foreign Policy and the Changing Role of the State

The external environment has been the single most important factor influencing the role of the Jamaican state during most of the 1960's. Two events circumscribed Jamaican policy at both the domestic and international levels. One was the Cuban revolution in 1959 with its attendant isolation by the West as part of Cold War policy; the anti-communist rising in Guyana during the early 60's as well as the US intervention in the Dominican Republic further aggravated the situation. The second event was the collapse of the West Indies Federation due to the withdrawal by Jamaica in 1962.

The threat of 'cold-war' intervention, the need to restore confidence in Jamaica in order to attract foreign capital and the perception of

inevitable linkages with the capitalist West - UK and USA - led the government to adopt what can be termed a passive foreign policy stance, notwithstanding the traditional capitalist orientation of the Jamaica Labour Party (JLP).

The Government did not diversify its aid and trade relationships. The one tended to reinforce the other. Almost all of the direct and indirect loans between 1962 and 1972 came from the USA, UK and Canada. At the same time trade over the same period was carried out mainly with these countries. The nature of the various loans determined to a large extent the role the government was to play in the development of the economy. They were essentially for infrastructural development - water supply, utilities, roads, bridges, education etc. - and came mainly from USAID, CIDA, IBRD and CDC. So that while government could obtain Western loan funds to create the necessary investment climate, it had to rely on foreign private capital to undertake actual development activities.

Towards the late 1960's the role of the Jamaican state began to change due to a convergence of internal and external factors. On the domestic scene, the government discovered that its industrialisation programme had made no impact on the problem of unemployment. In fact, increased unemployment existed side by side with high growth rates. After falling from 17.1 percent in 1957 to 13.5 in 1960 the unemployment rate was estimated to have increased to about 20 percent of the labour force in 1967.¹⁸ [It is interesting to note that the government estimated the rate at 13.5 percent of the labour force in 1967].¹⁹

On the other hand, during most of the 50's and 60's the commodity terms of trade deteriorated. Imports were increasing at a faster rate than exports. Along with a growing trade imbalance especially from the mid-sixties, there was also a significant outflow of funds - debt payments and

profits of foreign corporations. Moreover (central) government expenditure increased at a faster rate than previously from the late fifties to the late sixties, while government revenue grew at a much slower rate. The growing deficit has been financed by private capital inflows but government had grown wary of the growing magnitude of debt changes in the annual budget.

Government's increased role in the economy was dictated by these two considerations - growing unemployment and balance-of-payments problems. The government still thought that the kind of capitalist economic development it was promoting would solve the unemployment problem in the long run. But to satisfy short-term 'social needs' the government had to undertake public sector projects which would give maximum employment to Jamaicans.²⁰ These would have to be financed mainly through bilateral aid and other soft loans which might be available. However, a major problem was the inability of the country to obtain soft loans from multilateral institutions such as the World Bank's 'soft loan window' because Jamaica was classified as a 'middle-level-income' country on account of the size of its per capital national income.

The government therefore sought membership in the Organization of American States (OAS) in 1969 mainly to gain access to the Inter-American Development Bank (IDB) and the benefits of the Alliance for Progress.²¹ It must be remembered that the latter organisation was established in the early sixties to force Latin American governments to institute reforms - notably land reform - to pre-empt Cuban-type revolution and thus preserve the capitalist system in the region. And the Jamaican government's 1969 budget was aptly called a 'Reform Budget' including land reform, and reforms in taxation, investment and education.²²

Financial consideration was one reason - albeit a major one - for entering the Hemispheric group. But Jamaica was also seeking to end its

isolation from Latin America.²³ The same thing can be said in respect of the Caribbean with the government's entry into CARIFTA in 1968. The latter move was influenced by Britain's proposed entry into the European Common Market and the need to protect Jamaica's primary agricultural commodities.

The general move towards detente which also allowed a more independent foreign policy in Latin America facilitated what can be termed more active participation by the Jamaican government in matters concerning the Third World such as decolonization, apartheid and human rights. In 1967 Jamaica participated in the non-aligned consultative meeting in Belgrade and attended the foreign Ministers Meeting in Tanzania in 1970.

At the domestic level, the government moved to expand the economic role of the state by (1) expanding public sector projects in areas such as construction activity (e.g. Sandy Gully scheme) and (2) undertaking productive enterprises as well as promotional agencies mainly in the areas of tourism and manufacturing. In 1968, Air Jamaica was established with the government owning 74% of the shares. The Casa Monte Hotel Training School was set up in 1970 to provide training for staff in the industry while a number of large hotels came within the public sector between 1968 and 1972.²⁴

Government's move into the tourist sector was motivated by a similar consideration to that which resulted in an expansion of public projects, namely increasing employment in the country. Government also wanted to increase the foreign exchange earnings of the country as well as its revenue position. Nevertheless, the state's role was minimal and meant to be nothing more than supplementary to private undertaking in the sector. For in 1968 the government passed the Hotel Incentives Act which gave tax relief to investors for 10-15 years and allowed duty free import of items to be used for constructing or equipping hotels.

In the area of manufacturing, the focus was on manufacturing enterprises which would not only expand employment opportunities but would also make greater use of local raw materials thus reducing the significant level of imports. At the same time import restrictions were imposed. An area of manufacturing that was to be explored was craft activity which was given impetus with the setting up of Things Jamaican Ltd. in 1968. Guild Productions Ltd. set up in 1968, Guild Embroideries Ltd. and Fashion Knits Jamaica Ltd. in 1970 also served the same purpose. These enterprises along with Jamaica Frozen Foods which began operations in 1968 were all experiencing heavy losses because of operating inefficiencies among other things.²⁵

The government's basic philosophy did not change - private enterprise remained the vehicle through which economic development would be pursued. Incentives continued to be offered to both foreign and local capitalists. The mining industry was to be expanded with the setting up of an alumina plant at St. Elizabeth and with new agreements for increased production of alumina. This was in order to increase foreign exchange earnings and employment. In 1967 the Industrial Incentives Law was amended thus extending the period of income tax relief for companies from 7 to 10 years and up to 15 years for companies setting up outside the Kingston Metropolitan Area.

The emphasis during the late sixties was on 'Jamaicanisation' of the economy - mainly financial institution and public utilities - and self-reliance. This was largely on account of the low level of 'soft loans' the government had been getting, the increasing outflow of investment income over the years and its failure to make any serious impact on the unemployment problem and the imbalances in income distribution.

To continue its employment programme, among other things, government had to expand its revenue base which has been inadequate to meet growing

capital expenditure in the public sector. Government revenues had been constrained by the attractive tax incentives offered to investors, and in fact government had to rely on a regressive consumption duty tax in 1965 to increase revenue earnings because of incentive legislation regarding imported raw materials. Between the end of the 60's and the beginning of the 70's what can be called 'progressive' taxation was instituted. The income tax on companies was increased. A withholding tax was introduced for companies which remit profits abroad and the company profits tax was increased from 5% to 35%. This resulted in an increase in revenue from income tax of about 100% from 1967 to 1970.²⁶

What we can say at this point is that the Jamaican government has been pursuing economic growth and development according to its own notion of such development, namely, through the private enterprise system, and within the constraints of the international environment. It considered unemployment and the imbalances in income distribution as the most serious problems in the society. The latter was seen as a function of the distribution of wealth (land), levels of education and skills and insufficiency of employment opportunities.²⁷ The mechanism of the state was to be used only in respect of regulatory and promotional activities; to relieve the problem of unemployment in the short-run; and to effect more equitable income distribution in the society.

Government's method of effecting income distribution (and increasing employment) was to undertake increased capital expenditure in agriculture and labour intensive construction projects. These measures were not successful for reasons that are well documented elsewhere.²⁸ Suffice it to say that with respect to the agricultural sector, structural defects as well as failure to implement progressive policies such as land redistribution were major inhibiting factors.

Uncertainties in the international monetary system as well as economic and political discontent within the national system led to increased participation by the state in economic activity. At the beginning of the seventies the government was actually raising the issue of government control over economic activity and questioning Jamaica's reliance on the market mechanism as against central planning in determining the allocation of resources. Nevertheless, the government continued to assume that the main causes of poverty and inequality were unemployment and underemployment, but realised that expansion of employment may not necessarily lead to equity. Therefore, '... to the extent that the existing inequality in income reflects unequal wealth due to unequal opportunity to accumulate, then arrangements for facilitating popular participation in ownership of productive assets ... could be effective in making the distribution of wealth less unequal.'²⁹

Government came to realise, from the experience of other countries, that government participation in and control over the economy was a necessary condition for accelerating development. However, it did not favour a socialist approach involving state control of all production. It advocated instead joint venture arrangements providing for eventual Jamaican control and majority participation (51%) or 'Jamaicanisation' as the mechanism for promoting economic and social development.

The change of government in 1972 prevented the operation of the second D/Plan by the JLP government. But the mechanisms for promoting development were far from being abandoned by the succeeding government.

IV. POLICIES OF THE 1972-1976 PERIOD

1972-1974

It is in this period that Jamaica's foreign relations became important domestic political issues. The world had moved toward greater interdependence, and detente in the sixties as well as the weakening of the US dominant economic and political position in the international system allowed for greater manoeuvrability by Third World countries.

The PNP government was faced with two sets of problems when it assumed office in 1972. At the domestic level the growth of real output had declined (See Table). The current account deficit had been increasing steadily and significantly especially from the mid-sixties; the deficit increased fourfold between 1964 and 1970 (see Table). The unemployment situation was still grave; the unemployment rate which was estimated at 17.2% at October 1969 increased to 23.3% at April 1972.³⁰ And income imbalances had not been corrected. In fact the declining economic situation accompanied by repression against the radical intelligentsia, the working class and other protest groups had led to increasing political unrest during the latter half of the sixties. The PNP therefore had to move to correct the economic imbalances and restore political rights if it were to justify the massive support it received at the polls from the working class and other dispossessed groups.

At the international level, 1972 marked the progressive worsening of world inflation with the upsurge in world commodity prices.³¹ The increasing liquidity in the international monetary system due to the declining economic position of the US caused world monetary reserves to increase by 100% between 1969 and 1972 setting off the worst global inflation the world has known.³² The collapse in 1971 of the Bretton Woods System of fixed exchange

rates had the effect of allowing the US to slow down its inflation by transmitting it to the rest of the world.³³

To deal with the international monetary crisis as it affected Jamaica, the government realigned the Jamaican dollar with the US dollar and subsequently had to devalue the J\$ in February 1973. The effect of this was the increase in the value of imports from the non-dollar area. The cost of living increased because of Jamaica's heavy dependence on imports.

With regards to the balance-of-payments problem, the government diagnosed this as due to over-consumption in relation to production. [It is interesting to note that the PNP in opposition had levelled a similar criticism of the balance-of-payments problem of 1962.] In the 1970's the decline in capital inflows had aggravated the problem. The government therefore stressed the danger of dependence on foreign capital and advocated instead self-reliance, i.e. use of increased national savings. This was the same position the PNP held at the time of independence when they were criticising the JLP's reliance on foreign investment. In 1972, because the government could not rely on capital inflows to finance the balance-of-payments it resorted to a draw-down of the country's reserves. As a result, net foreign reserves at the end of 1972 were nil.

The government in its first year of office set out the following policies to deal with the B.O.P. problem:

1. restriction on imports
2. restriction on bank credit
3. ceilings on credit which should be made to the productive sector
4. increasing bank rate to encourage savings
5. tightening of the exchange control law and reduction in the travel allowance.

And the effect of these policies was a significant increase in foreign reserves; net reserves stood at J\$76 m. at the end of 1973 (Table).

The employment situation improved somewhat, the unemployment rate was reduced from 23.3% at April '72 to 22.5% at October '72. This was partially due to the Economic Stabilization Programme of '72 and to government 'employment' projects. The government had allocated \$14 m. to the employment projects for the period 72/73 as against \$8.8 m. allocated by the previous government over the 71/72 period. At the same time government proceeded to redistribute benefits from Capital to Labour with the significant wage and salary increases paid to public service employees in 1972. As a result the wage rate - 12.9% of GDP - was the highest in the previous five year period.³⁴

Government was preoccupied over most of 1974 with defensive measures aimed at containing the B.O.P. situation which deteriorated after July 1973. The oil price increases along with the international monetary crisis posed serious constraints on economic growth. Output which had grown considerably in 1972 hardly increased in 1973 (see Table). The government announced two measures to deal with the situation, namely, to limit foreign borrowing to meet the budget deficit and control profits and wages. To effect the latter a wage policy was needed. Its two elements would be (a) to establish a national minimum wage and (b) to relate wage increase to productivity increase. The latter was difficult to achieve because of the strength of trade unions and the PNP's union base.

Domestic policy during this period can be termed defensive on account of the external constraints we mentioned above and the PNP's ambivalence in adopting measures which might alienate its traditional base - the middle class and those 'national' capitalists that benefited from the industrialisa-

tion programme of the previous period. Foreign policy on the other hand was more assertive than under the previous administration.

The PNP had accepted the structuralist approach, notably that of the dependency school in attempting to identify and overcome the problem of underdevelopment. Thus the government during this period focused on changing the relationship between the developed and developing nations. Under the established system of economic relations between developed and developing nations the 'lion's share' of the gains from international trade and investment accrued to the suppliers of capital and technology. The widening gap will be narrowed by 'nothing less than a reorganization of the system of the economic relations between developed and developing nations.' 35

The Jamaican government had however inherited the issues of the future of the regional integration movement CARIPTA as well as the future of the primary producers in the event of Britain joining the EEC. Jamaica had been dependent on exports of three major agricultural commodities - sugar, banana and citrus. These have been guaranteed through special marketing arrangements and financial assistance. A significant amount of sugar - $1\frac{1}{2}$ million tons - was sold annually to the UK under the Commonwealth Sugar Agreement which expired in 1969. There was also a preferential market for 0.7 m. tons to Canada and New Zealand. Ten percent of banana exports were sold to the UK under special marketing arrangements while citrus exports to the UK benefited from a Price Assistance Scheme.

Jamaica therefore perceived a common interest with other Third World countries - the ACP group - in protecting its export trade as well as in trying to redress the trade imbalance between the developed and developing countries. However, what is considered to be the most radical policy was

government's move to normalize relations with Cuba, notwithstanding the fact that the initiative was jointly taken in 1972 by the major Caribbean territories - Jamaica, Trinidad and Guyana - and the final decision reflected a regional position. The government and party's closer move towards Cuba from 1974 significantly affected both domestic and foreign relations.

1974-1976

In this period domestic policy can be termed 'offensive' in relation to the defensive moves undertaken between 1972 and 1974. Output started to decline from 1974; real growth was increasingly negative during this period largely on account of the decline in the five major sectors, agriculture, mining, manufacture, construction and distribution. The current account deficit increased significantly mainly on account of the heavy outflow of investment income. But current account deficits had been quite significant especially during the second half of the sixties. However, these have been financed by large private capital inflows in the bauxite/alumina and manufacturing industries.

Direct investment levelled off with the completion of major installation projects in the bauxite/alumina industry at the end of the sixties. Government's strategy for correcting the imbalance was to rely on increased domestic production for exports as a long-term solution; and the mechanism to be used for overcoming balance-of-payments constraints in the short-run would be a levy imposed on bauxite production. This was considered a very radical policy as it would in effect alter the relationship between the developing country and the transnational enterprise and could adversely affect the relationship between the developing country and the home country of the transnational enterprise.

The policy on redressing the imbalance between Jamaica and the developed world was nothing new as we have already seen. It was just brought to the fore earlier on account of the economic situation in 1973 which was aggravated by the OPEC price increases in that same year. As far back as June 1972 a Bauxite Commission was set up to assist in formulating national policy on the industry.³⁶ The government also took the initiative to establish in 1975 along with other world producers, a bauxite producers' organisation - the International Bauxite Association (IBA). This association has been viewed by the Western World, especially the main users of bauxite, with some measure of hostility as it was likened to the oil exporters' cartel.

Nevertheless, government's move into this sphere did not by itself have a disastrous effect on Jamaica/US or Jamaica/Canadian relations although the bauxite companies at the time of announcement of the levy, declared they would submit their case to arbitration. It did not affect domestic relations as the private sector and political opposition supported the move which was justified in terms of the deterioration in Jamaica's terms of trade.³⁷

The bauxite levy which was treated by government as part of general revenue because it was levied and collected annually, was to be disposed of during 74/75 as follows:

\$40 m. (or about $\frac{1}{2}$ of the revenue) was to be allocated to revenue reserves and used for

1. building up cash reserves to a more respectable level during the year,
2. the financing of any new capital projects that might need to be started during the year, and
3. extending the employment programme.

The rest of the revenue would be put into a Capital Development Fund for reinvestment in the bauxite/alumina industry.

What actually happened during the period 1974/1975 was quite different from what the government had envisaged. Twice the original amount of bauxite levy (\$85.1 m.) had to be transferred to the Consolidated Fund. Inflows into the Capital Development Fund (CDF) which had amounted to \$134.2 m. were reduced to \$49.1 m. at the end of March 1975.³⁸ This was on account of the significant increase in expenditure over the period which posed a serious problem of financing. The Budget which began at \$596.9 m. in May 1974 ended at \$710.8 m. - an increase of 66.5% over the 1973/1974 Budget. Revenue, on the other hand, fell short by \$23.5 m., partly on account of government's import policy. The government has therefore had to use an increasing amount of the bauxite levy to finance recurrent expenditure on account of the deterioration in its revenue position. There was therefore not enough in the CDF to finance investment.

The situation did not improve in the following financial year. Revenue shortfall was \$28.4 m. due mostly to a decrease in earnings from government institutions. The performance of most of the industrial sectors was disappointing. But 1976 was actually the most disastrous year. There was significant negative growth in all the major sectors of the economy (see Table). The government revenue shortfall was \$115 m. and the budget deficit which was described as 'unprecedented' was \$281.6 m.³⁹ This had to be met by Bank of Jamaica accommodation. The deteriorating economic performance over 1975 and 1976 coupled with the decline in foreign capital inflows led to a high degree of money creation (\$325 m.) during the period.⁴⁰

The explanation for this deteriorating economic situation which led to political weakness by the government, lies to a great extent in the

domestic and foreign policies pursued during this period. We will discuss these under the rubric of the role of the state in the 1974-1976 period.

Role of the Jamaican State 1974-1976

The most significant domestic factor that affected the economic situation in Jamaica between 1974 and 1976 was the announcement by the PNP in 1974 of its intention to pursue economic development under the guiding philosophy of 'democratic socialism'. This ideology of 'parliamentary' socialism which was fashioned after the British Labour Party Model had been espoused since the 1940's after the PNP was formed. It was contained in the 1950's during the height of the cold war after four 'leftist' members of the party were expelled. The revival of the ideology in the 70's attested to the changed international climate which allowed for the re-emergence of 'radical' ideologies in the Third World and especially the Caribbean, e.g. Guyana and Tanzania.

The PNP's socialism was liberal enough to attract members of the (national) capital class who had been alienated by JLP policies - notably increase in company income and profits taxes - which affected the manufacturing sector. Thus the PNP was wooing the working class in relation to establishing a just society while at the same time housing the national bourgeoisie who expected to benefit from the 'Jamaicanisation' or local ownership of Jamaica's productive resources that Manley advocated. Moreover, the middle classes were reassured by the PNP leader during the 1972 election campaign that he was committed to the democratic system and opposed to communism and all other forms of totalitarianism.

Democratic socialism was essentially an ideology that rejected capitalism as the basis for future development of Jamaica; capitalism

being defined as a system that 'involved the exploitation of people and obliges individuals to pursue private gain at the expense of their fellow citizens without regard to any other interest'. It advocated instead building a socialist society; socialism being defined first as 'an ideal, a goal and an attitude of mind', then as a 'way of life' and finally as 'the Christian way of life in action'. While these are all vague concepts the PNP sought to clarify its ideological thrust by listing four basic principles upon which it would build its socialist model. These are:

1. The Democratic Political Process
2. The Christian principles of brotherhood and equality
3. The ideals of equal opportunity and equal rights
4. Determination to prevent the exploitation of Jamaica.⁴¹

The model advocates a mixed economy in which the state's role would be to supervise the running of the economy through a variety of mechanisms, namely, 'direct ownership, control by participation, regulatory machinery and by creation of appropriate incentives and opportunities'.⁴² While the state would control the 'commanding heights' of the economy the private sector still had a significant area within which to operate but it had to work 'within the bounds of the national interest and the people's rights and welfare'.

The role of the private sector has never been adequately defined although that sector was to be relied upon as a full partner in the development process. The PNP has also been ambivalent and vague on the role of foreign private capital. The party rejected imperialism - foreign economic control - while at the same time welcoming foreign private investment provided that it operated 'on a basis of good corporate citizenship'.

Democratic socialism was essentially a reformist ideology seeking to reconcile the difference between classes rather than carrying the class struggle to its logical conclusion as set out by the Marxian model. However, the PNP's socialist rhetoric focusing on concepts such as 'capitalist exploitation' and 'imperialism' without seriously pursuing the content of socialist transformation, its progressive foreign policy, and the uncertain future perceived by the private sector all led to a growing antagonism by that sector to the government's development efforts. In fact, they were largely responsible for the serious down-turn in the economy after 1974.

In keeping with its mixed economy model the government moved to acquire state participation in the mining industry and to extend participation in the sugar and tourist industries, manufacturing and the public utilities. Majority participation in the bauxite/alumina industry has been confined to the mining operations.⁴³

Government participation in the tourist industry was an extension of the JLP's government's policies of the late sixties and early seventies, although several hotels were bought 'to prevent closure and the consequent increase in unemployment at a time of slow growth in the economy and a decline in activity in the tourist industry'.⁴⁴ The distribution sector was strengthened by the establishment of a state trading enterprise to guarantee essential raw materials to manufacturers at stable prices.⁴⁵ Most of the sugar industry was brought into the state sector and many manufacturing enterprises were acquired due to closure of the firms. Others were set up to develop the agro-industrial sector. Although government acquired greater ownership in manufacturing there was no change in the structure of the sector which could for example contribute to the expansion of its employment creating capability. In fact government continued the traditional 'incentive

legislation' approach to industrial development by enacting measures in 1975 which favoured large exporting industries.⁴⁶ This had the effect of stymieing the development of small businesses which were oriented toward the domestic market.

Although state participation in the economy became substantial during the seventies - 220 Statutory Bodies and Public Enterprises were in operation at the end of 1976 -⁴⁷ that participation was based largely on the acquisition of existing assets rather than on the creation of new assets. What this meant was that there was no increase in 'the employment generating capacity of the economy'.⁴⁸ Hence, while government expenditure increased on account of the enlargement of the public sector - which incurred heavy losses during the period - employment was not increased by the latter. Government therefore had to undertake special employment projects to relieve the unemployment situation.

In the area of foreign policy, the government followed up the normalisation of diplomatic relations with Cuba by signing an agreement with Cuba for establishing a direct air route between Kingston and Havana. Trade with Cuba was also being explored but it would be limited so as not to contravene existing US legislation. This points to the inability of the government to reduce Jamaica's dependence on US aid and trade.⁴⁹ In 1975 the government commenced sending groups of young Jamaicans to Cuba for training in various skills. The Prime Minister also paid official visits to Cuba and the Soviet Union in the same year. Thereafter the government's socialist rhetoric intensified/^{at}both the domestic and international levels.

The PNP government was seeking to institute socialist change at the domestic level while attempting to restructure its international relations by cooperating with other non-aligned governments in the struggle to establish

a new international economic order. The government's diversified relations during this period (72-76) included diplomatic, trade and aid relations with China, and agreements with Venezuela, joint venture cooperation with Mexico and assistance from Cuba in school building, housing construction and the Micro Dam project.⁵⁰ The increasing presence of Cuban personnel in Jamaica in connection with the building projects, coupled with the increasing socialist rhetoric especially in the Party's official organ 'The New Nation' during 1975, led to a deterioration in the relations between the PNP government and the official Opposition and the Private Sector,

A series of acts of violence and strikes as well as the decline in demand for Jamaica's bauxite/alumina among other things in 1975, led the government to charge that the economy was being destabilized by external forces. This warrants further investigation. Nevertheless, we feel that 'destabilization' or more appropriately non-cooperation in developing the mixed economy can be attributed mainly to local capitalists in the industrial sector who feared the erosion of their class position and thus worked in collusion with the forces of external capitalism who benefit from Jamaica's dependent relationships. This can be seen to some extent from the declining performance of sectors such as manufacturing, construction and distribution, the anti-communist articles in the Gleaner which has been seen as the mouthpiece of the local bourgeoisie, and the American Press' hostility to Jamaica's Cuba policy. The bauxite companies had cut back production more on account of the imposition of the levy in 1974 than on account of the fall in demand for aluminium on the US market. While the rate of growth of the mining sector increased in 1977 after the levy was revalued, the rates in manufacturing, construction and distribution continued to decline.

Although US policy towards Jamaica was tolerant during the early part of the Carter Administration, yet the US remained opposed to the spread of 'Castroism' in the Caribbean. This was mainly on account of the region's geographic position and US dependence on the Caribbean for two-thirds of its bauxite and alumina imports. US aid to the region was to be increased in order to 'strengthen Democratic Government and the Rule of Law, Prevent the rise of Radical anti-US Governments, gain some Third World Allies in the United Nations, and protect [the US] economic stake in the region'.⁵¹

By November 1979, the Caribbean policy of the Carter Administration had become radically different and less tolerant of democratic socialism than in the early period. This was on account of the crisis over Soviet troops in Cuba. The new US moves were also attributed to Prime Minister Manley's anti-imperialist statements at the 1979 Non-Aligned Summit in Cuba. It was also claimed that the Opposition Leader had circulated a document in the US during October 1979 which linked Jamaican workers in the Prime Minister's Office to KGB agents and Cuban intelligence. The result of these events was reported as moves by the US Senate to freeze US \$34.6m. of approved aid to Jamaica and by USAID to stop the PL480 food credits to Jamaica.⁵² Whether these moves were of domestic (US) origin or not⁵³ does not obscure the fact that domestic and external capitalists cooperate when they perceive that their interests are threatened.

To assess the importance of various policies in relation to Jamaica's financial dependence we will now look specifically at the relationship between capital flows and Jamaican policy.

V. CAPITAL FLOWS AND JAMAICAN POLICY

Foreign capital inflows have always played a significant role in Jamaica's development process. In the 1960's, government pursued a dependent capitalist path of development through reliance on foreign private investment. Net capital inflows were particularly significant from the mid-1960's to 1971. While net inflows averaged under \$20 million between 1962 and 1966 the average was as much as \$116.1 million over the period 1967 to 1971. Of course most of the inflows were private capital inflows (see Table 2). Net foreign borrowing averaged 22 percent of gross domestic investment (GDI) during the period 1964 to 1968. During the following four year period (1969-1971) the average was 30 percent of GDI.

Although national savings has been financing the bulk of GDI, this mostly represented undistributed corporate profits and depreciation allowances of the corporate sector which is substantially foreign owned and controlled. However, from 1966 this category has been contributing less and less to the financing of GDI. On the other hand, foreign borrowing has increased reaching its highest percentage contribution to GDI (62percent) in 1976.

The Jamaican government secured between 1962 and 1971 about US\$125.5 million in foreign direct loans. Most of the loans were soft long-term loans (with interest rate approx. 3%) from USAID, CIDA and IDB to be used for infrastructural development and feasibility studies. About one-third of the loans were US and UK medium term market loans with interest rates between 7 and 8 percent per annum. From the point of view of debt-servicing the terms of the loans were not unfavourable - over 80 percent of the loans had maturity of over 15 years (see Table 5).

Government-guaranteed loans during the 1962-71 period were substantial - US\$188.6m. - considering that state participation in the economy was minimal. Most of these loans were medium-term and guaranteed mainly to utilities and

hotels in the private sector as well as promotional agencies in the public sector. They were also from institutions such as IBRD, CIDA, IDB, CDC and Eximbank whose lending pattern reinforced the infrastructural role of the state and the export-orientation of the country.

The role of foreign capital in the Jamaican economy has been largely determined by government policy. That policy was based on the objective role of the Jamaican state which was to create a class of national capitalists via industrialisation with foreign private investment. The policies of international lending institutions themselves as well as the economic philosophy of major Western 'aid donors' served to reinforce that role.

Government's policy resulted in the creation of the type of economy which could not experience self-sustained growth - enclave activities with the absence of linkages with the domestic sector.⁵⁴ Thus, real growth was sporadic and the problems of unemployment and unequal income distribution remained unsolved in the early seventies.

When the Manley regime assumed office in 1972 foreign capital inflows had already started to level off. In fact at the end of 1972 capital inflows (net) were less than half their value in 1971, though this could be attributed to the uncertainty associated with a new regime coming to power. The situation improved significantly between 1972 and 1974, yet the average over the period was not much greater than that between 1967 and 1971 (see Table 2). Private capital inflows had decreased substantially from 92.3 percent of total inflows in 1967-1971 to 66.9 percent during 1972-1974, and further to a phenomenal low of 20.0 percent from 1975 to 1976. Official flows which had increased significantly in 1975 also declined between 1976 and 1977.

During the period 1972 to 1974, the PNP government advocated self-reliance while stressing the danger of relying on capital inflows especially

those related to specific construction projects in industries such as the bauxite/alumina industry. The productive sector would be strengthened and production increased while government would pursue development through increased national savings. However, significant foreign borrowing - average of 38 percent - continued to finance GDI during 1972 to 1976; especially between 1974 and 1976 when net foreign borrowing contributed 49 percent to the financing of GDI.

Between 1972 and 1974 government secured approximately US\$256.9 m. of foreign direct loans. Over half or 57 percent of this amount - US\$146.5m. - represented medium term loans to used by government for the repayment of debts among other things. The remainder of the loans, like those in the 1962-1972 period were for infrastructural projects and came mainly from IBRD, IDB, CIDA and USAID. While these had very low interest rates - eg. 3% on USAID and CIDA loans - the overall debt burden was increased on account of the substantial amount of commercial loans which had fairly high interest rates. This is also true of the government-guaranteed loans during this period. These loans totalling approximately US\$296.6m. actually exceeded direct loans on account of greater state participation in the economy, and were mainly commercial loans with high interest rates.

Direct loans during the 1974-1976 period were somewhat greater than during the preceding period - US\$356.8m. - and reflected government's pursuit of a policy to diversify its aid relationships. New sources of loans were the Venezuelan Investment Fund (Infrastructure), the Kingdom of the Netherlands (Commodity Purchases), the German Government (Fishing), CARICOM governments (Budgetary Purposes) and the People's Republic of China (Cotton Mill and Commodity Purchases). Aid from some traditional sources was also obtained, notably USAID PL480 credits. Government-guaranteed loans during this period

were US\$130.9m. or only about half of what they were in the 1972-1974 period. Again, most of these were commercial loans with fairly high interest rates.

What we can say is that during the post 1972 period, especially after 1974, official capital inflows reflected government's domestic policy of pursuing development through increased state participation and ownership in the economy and its foreign policy of closer cooperation with socialist and Third World countries. The heavy reliance on commercial loans points to government's need for untied funds as well as its inability to secure adequate long-term loans to carry out its economic programmes. Traditional Western funds were usually tied to specific infrastructural projects and purchases in the donor countries. Diversification of the source of foreign capital inflows was even more marked in the post 1976 period although, because of the economic crisis which worsened thereafter, loans were mainly for commodity purchases rather than for capital development.

The cause of the serious economic crisis which developed in 1976 has been attributed to 'a reduction in capital inflows and unrequited transfers' during 1976.⁵⁵ While this is undoubtedly true it should be seen more as an immediate rather than ultimate cause of the crisis. During the 1974-1976 period government had difficulty in securing adequate loan finance for its capital budget. A major problem was government's inability to drawdown committed institutional loan funds. For example, in 1974 government was able to drawdown only \$9.5m. of the \$22.7m. budgeted. In 1975, it drew down under \$16m. instead of the \$40.7m. budgeted.⁵⁶ The cause of this problem was given as bureaucratic delays among other things. So that government's shortfall in foreign capital inflows was due to a significant proportion of undisbursed debt, mainly bilateral and multilateral loans. At the end of 1979, for example, while 29 percent of the total external public debt was undisbursed, just over

50 percent of multilateral loans and just under 50 percent of bilateral loans remained undisbursed.

While we do not at present have data on disbursed and undisbursed debt for years other than 1979, it seems clear that foreign private capital inflows 'dried up' in 1976 as evidenced by their net outward flow on the capital side of the balance of payments. The cause of this would seem to be the government's 'Cuba' policy and its democratic socialist ideology which sparked cooperation between local and foreign capitalists in defence of what they perceived as a threat to their vital interests. This aspect, however, needs to be further explored.

We can however say that the private sector's perception of hostility by the government was so real that it led the government to deny any such hostility during the presentation of the Budget Speech in 1976. The Minister of Finance listed some of the assistance the government had given the private sector since 1973. The JDB had provided \$10m. in advances to industry; \$5m. was provided to assist hotels; and an Export Credit Facility and Export Credit Guarantee Scheme were made available from 1974 to assist the private sector's export drive. Further evidence can be seen from the significant increase in government subsidies from 1972. Among the major recipients were the distribution, transport, manufacture and agricultural sectors. In fact government's increasing expenditure on subsidies, wages and employment creation coupled with stable revenue receipts has led to dependence on foreign borrowing and domestic money creation for financing central government operations (see Table).

The PMP government of the post 1972 period perceived that restructuring the Jamaican economy was necessary if increasing employment and correcting income imbalances in the society were to be achieved. Economic development therefore meant transforming the economic structure as well as the economic

relationship between Jamaica and the outside world. However, increasing the state's economic role and pursuing a 'progressive' foreign policy are necessary but not sufficient conditions for building a socialist society. The government's reliance on these as well as on socialist rhetoric and a capitalist economic structure for achieving its objectives were impractical. Hence, redistribution was effected mainly through fiscal measures and foreign borrowing while private interests mobilised their resources to effectively limit governments' initiatives.

While we do not have data on direct investment, it would seem from the overall figures on net capital inflows and the fact that there was no significant capital expansion in the bauxite/alumina industry that foreign private investment hardly increased between 1972 and 1976. Moreover, with the exception of 1975, private direct investment flows from the US - which is a major DAC donor - to developing countries have been declining during the 1970's. Most of the inflows then represented foreign borrowing, and specifically government borrowing. Because the terms of loan finance had hardened during the 1970's investment income payments increased significantly from 1973. While the outflow of direct investment income remained more or less constant between 1973 and 1976 the outflow of central government interest almost doubled between 1972 and 1973 - J\$12.3m. to J\$21.4m. - and increasing significantly thereafter. This situation got progressively worse because expansion financed by foreign capital was taking place in the non-productive sectors of the economy - distribution and services.

Foreign capital inflows - especially official flows - were therefore unable to perform the function it should have performed during the 1972-1976 period, namely to allow the government the room to manoeuvre it needed while effecting structural transformation.⁵⁷ Government's economic and political

action did not match the policy it advocated; performance fell short of rhetoric. The basic cause of the problem was political. As Levitt observed, 'there can be no secure redistribution of income in an open and highly dependent capitalist economy without a change in the internal balance of social power'.⁵⁸ To explain why the government did not and could not alter the balance of economic power at the domestic level requires analysis of the class character of the Jamaican state and the distribution of economic power in the society. Unfortunately this paper cannot address itself to these questions at the present time.

In this section we relied on data regarding capital flows from the Balance of Payments as well as from unpublished material. Unfortunately, we have been unable to obtain data on the sectoral distribution of capital inflows. We therefore used the net figures on capital inflows from the capital account of the balance of payments. Information on direct investment by private capital was unavailable whereas data from the investment income account can only be treated as crude estimates. Our data on official loans secured since 1962 are provisional.

VI. CONCLUSION

This paper attempted to examine the relationship between official policy - domestic and foreign policy - and the reliance on foreign capital for pursuing economic development. The focus has been greater on official policy rather than on capital flows because we believe that it is the former which largely determines the role of foreign capital inflows and the direction that development will take. Further, the economic literature abounds with analyses of the relationship between capital flows and economic development.

We tried to show how the role of foreign private investment and the

structure of the Jamaican economy were determined by government's policy on economic growth and development during the 1960's. The nature of foreign capital inflows also reinforced government's policy on foreign investment. Domestic capital was perceived to be inadequate. While this is debatable⁵⁹, the perception was nevertheless real and official action resulted in foreign-dominated enclave type activities which have constrained the growth and development of the Jamaican economy.

During the 1970's government's perception of economic growth and development changed on account of a failure of previous 'industrialisation' policies and due to the influence of radical ideologies which had gained prominence in the Third World and which were becoming increasingly significant at the domestic level. Although the government correctly diagnosed the problem of underdevelopment and advocated various measures to deal with it economic transformation had barely started. Government policy showed ambivalence regarding the role of foreign capital and also local private capital in the transformation process.

The government's political weakness was evidenced in the struggle to shift the balance of power from capital to labour. Government's policies were centred on fiscal measures to increase employment and redistribute benefits without the accompanying restructuring of the economy to sustain growth while effecting equitable distribution.

Because the PNP's 'socialist' ideology was reformist and ^{not} revolutionary one would have expected that foreign capital (and also local capital) would continue to play a similar role to that of the 1960's. However, the Government's progressive foreign policy coupled with its increased socialist rhetoric during 1974 to 1976 served to constrain even the traditional role of foreign and local capital while no viable alternative had been embarked upon. The

economic situation therefore progressively worsened. Although the government was able to mobilise domestic agricultural production during the seventies after receiving a 'socialist mandate' in the 1976 elections, foreign capital and local private capital had already been alienated.

We can finally say that while the course of economic development in the 1960's was charted to a large extent by effective state policy, the economic and social transformation envisaged in the seventies did not materialise because of the absence of effective state policies.

Table 1

MAIN ECONOMIC INDICATORS, 1972-1978, J\$Mn.

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Current Account Balance	-117.3	-164.3	-151.8	-257.0	-275.2	- 31.4	- 59.6
Net Capital Movements	59.8	124.7	221.1	189.9	41.5	51.7	8.9
Change in Reserves (increase)	43.6	27.7	- 54.1	73.6	238.2	14.6	70.5
Net Foreign Reserves at end of Year	-	76.1	130.2	56.7	-181.4	-196.0	-447.0
(Percentage) Rate of Growth of GDP at Constant Prices	10.0	0.1	- 0.7	- 2.6	- 8.3	- 2.0	- 1.7

Source: Balance of Payments, Bank of Jamaica, Statistical Digest, Bank of Jamaica Economic Survey, National Planning Agency.

Table 2

NET CAPITAL INFLOWS (AVERAGES) J\$Mn.

	<u>1967-1971</u>	<u>1972-1974</u>	<u>1975-1976</u>	<u>1972-1976</u>
Total Inflows	116.1	135.8	115.7	129.4
Private	107.2	90.9	23.2	63.8
Official	8.9	44.9	92.5	65.6
Private as % of Total	92.3	66.9	20.0	49.3

Source: Balance of Payments Summary, Bank of Jamaica.

Table 3

FINANCING CENTRAL GOVERNMENT OPERATIONS, J\$Mn.*

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Total Revenue	347.1	517.5	640.7	606.7	652.2	1037.3
Total Expenditure	443.1	704.6	933.7	1130.8	1165.4	1594.1
Overall Deficit	- 95.4	-187.1	-293.0	-524.1	-613.2	-556.8
Foreign Financing (Net)	53.9	55.2	99.4	83.2	21.1	269.9
Domestic Financing (Net)	41.5	131.9	193.6	440.9	492.1	286.9
<hr/>						
% Foreign Financing	56.5	29.5	33.9	15.8	3.4	48.4

Source: Ministry of Finance.

*Figures are for the financial year.

Table 4

DIRECT LOANS BY TYPE OF LOAN*

<u>Type of Loan</u>	<u>1962-1971</u>		<u>1972-1974</u>		<u>1975-1976</u>		<u>1977-1979</u>	
	US\$Mn.	%	US\$Mn.	%	US\$Mn.	%	US\$Mn.	%
Bilateral	39.9	32.8	11.6	4.5	186.3	52.3	388.3	47.8
Multilateral	41.4	34.0	11.6 ^{74.1}	28.8	186.3 ^{33.9}	9.5	168.5	20.7
Commercial	40.2	33.1	171.2	66.6	136.6	38.2	254.3	31.3
<hr/>								
All Loans	121.5	100.0	256.9	100.0	356.8	100.0	811.1	100.0

*These figures are provisional.

Source: Compiled from Unpublished Data, Bank of Jamaica.

BILATERAL LOANS BY SOURCE*

<u>Source</u>	<u>1962-1971</u>	<u>1972-1974</u>	<u>1975-1976</u>	<u>1977-1979</u>
United Kingdom	3.5	-	-	13.2
United States	21.6	5.2	13.1	48.3
Canada	14.8	6.4	40.0	8.2
Caricom	-	-	63.9	12.6
Venezuela	-	-	16.6	25.1
Netherlands	-	-	41.6	214.8
Germany	-	-	2.0	-
China	-	-	9.1	-
OPEC	-	-	-	50.0
Iraq	-	-	-	10.1
Other	-	-	-	6.0
All Sources	39.9	11.6	186.3	388.3

Percentages do not add up to 100 because of rounding.

*Provisional

Source: Same as for Table 4.

Table 6

MATURITY STRUCTURE OF DIRECT LOANS*

<u>Maturity</u>	<u>1962-1971</u>		<u>1972-1974</u>		<u>1975-1976</u>		<u>1977-1979</u>	
	US\$Mn.	%	US\$Mn.	%	US\$Mn.	%	US\$Mn.	%
1 - 4 years	-		-		26.2	7.3	72.8	8.9
5 - 9 years	-		151.2	58.8	178.1	49.9	174.6	21.5
10 - 14 years	26.0	21.4	21.7	8.4	7.4	2.0	61.6	7.6
15+ years	95.5	78.6	84.0	32.7	145.1	40.6	492.1	60.6
Total	121.5	100.0	256.9	100.0	356.8	100.0	811.1	100.0

Percentages do not add up to 100 because of rounding.

*Provisional

Source: Same as for Table 4.

FOOTNOTES

¹Notably Susan Strange. See her 'International Economics and International Relations: A Case of Mutual Neglect', International Affairs Vol. 46, No. 2, April 1970, pp. 304-15; 'The Study of Transnational Relations', International Affairs, Vol. 52, No. 3, July 1976, pp. 333-45; and International Economic Relations of the Western World 1959-1971, Volume 2: International Monetary Relations (London: Oxford University Press, 1976). See also Robert Gilpin, U.S. Power and The Multinational Corporation: The Political Economy of Foreign Direct Investment (London: Macmillan Press, 1975).

²Gilpin, op. cit.

³Strange's suggested framework incorporating the relationship between 'authority' and 'market' - i.e. between rule-making powers and buyers and sellers - is implicitly synonymous with our role of the state approach. See International Affairs, Vol. 52, No. 3, July 1976, pp. 333-45.

⁴Owen Jefferson, The Post-War Economic Development of Jamaica (Mona: I.S.E.R., 1972).

⁵Ibid.

⁶See Stanley Reid, 'An Introductory Approach to the Concentration of Power in the Jamaican Corporate Economy and Notes on its Origin' in Carl Stone (ed.), Essays on Power and Change in Jamaica.

⁷Jefferson, op. cit.

⁸Ibid.

⁹Ibid.

¹⁰Ibid.

¹¹See Independence Plan 1963-1968.

¹²Jefferson, op. cit.

¹³Independence Plan 1963-1968.

¹⁴Jefferson, op. cit.

¹⁵Ibid.

¹⁶Ibid.

17 Ibid.

18 Ibid.

19 See Government of Jamaica, Second Five Year Plan 1970-1975.

20 'Unemployment Relief Measures', Ministry Paper No. 49 of 1966.

21 See Ministry Paper No. 60 of 1969 re Jamaica's membership of the OAS.

22 See Budget Speech 1969.

23 Ministry Paper No. 60 of 1969.

24 See A. Brown and H. McBain, 'The Public Sector in Jamaica', mimeo.

25 Ibid.

26 Second Five Year Plan 1970-1975.

27 Independence Plan 1963-1968.

28 Notably Jefferson, op. cit.

29 Second Five Year Plan 1970-1975, p. 15.

30 See Budget Speech 1973.

31 See Susan Strango, International Economic Relations of the Western World 1959-1971, Vol. 2, International Monetary Relations.

32 See Kari Levitt-Polyani, "The World Economic Situation with Special Reference to the Countries of the Caribbean", Mimeo. I.S.E.R., September 1980.

33 Ibid.

34 Budget Speech, 1973

35 See, "1972 Address to the United Nations", Statement by the Hon. M. Manley, Prime Minister and Minister of External Affairs of Jamaica at the Twenty-Seventh Session of the UN General Assembly, Monday, October 2nd, 1972.

³⁶ See Vaughan Lewis, 'Issues and Trends in Jamaican Foreign Policy 1971-1977'. Minco.

³⁷ Ibid.

³⁸ See Budget Speech 1975.

³⁹ See Budget Speech 1977.

⁴⁰ Ibid.

⁴¹ See Democratic Socialism: The Jamaican Model. Supplement to the Daily Gleaner, December 9, 1974.

⁴² Ibid.

⁴³ See Five Year Development Plan 1978-82.

⁴⁴ Brown and McBain, op. cit.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ The size of PE assets is also substantial - over \$600m. ?
See Memorandum on the Budget 1977-1978.

⁴⁸ Brown and McBain, op. cit.

⁴⁹ See Vaughan Lewis, op. cit.

⁵⁰ See PNP 1976 Election Manifesto.

⁵¹ 'Why is Caeter Courting the Caribbean', Sunday Gleaner, Feb. 19, 1978, p. 13.

⁵² See 'A Chill Wind hits the Blue Mountains', Daily Gleaner, Nov. 27, 1979, p. 6.

⁵³ Ibid.

⁵⁴ See for example, 'The Political Economy of the Caribbean', Finance and Development, Vol. XIV, No. 4, December 1977.

⁵⁵ See Levitt-Polyani, op. cit., p. 90.

⁵⁶ See Budget Speeches, 1975 and 1976.

⁵⁷ Dudley Seers quoted in Susan H. Cochrane, 'Structural Inflation and the Two-Gap Model of Economic Development', Oxford Economic Papers, Vol. XXIV, No. 3, Nov. 1972, p. 397.

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